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Main Post Office Box 1929
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Let Questions
classification may have been changed by SP

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In reply to your letter of 7 July 1947, we can furnish the following information.

In answer to your first inquiry, the living and quarters allowances paid to you were as follows:

| | <u>1943</u> | <u>1944</u> | <u>1945</u> | <u>1946</u> |
|-----------|-------------|-------------|-------------|-------------|
| January | | \$ 185.75 | \$ 210.00 | \$ 195.00 |
| February | | 172.50 | 210.00 | 195.00 |
| March | | 185.75 | 210.00 | 195.00 |
| April | | 180.00 | 210.00 | 195.00 |
| May | | 185.75 | 210.00 | 195.00 |
| June | | 180.00 | 210.00 | 195.00 |
| July | | 210.00 | 210.00 | 149.23 |
| August | | 210.00 | 210.00 | 149.23 |
| September | \$ 72.00 | 210.00 | 195.00 | 149.23 |
| October | 185.00 | 210.00 | 195.00 | 149.23 |
| November | 180.00 | 210.00 | 195.00 | 233.85 |
| December | 185.00 | 210.00 | 195.00 | 233.85 |
| Totals | \$622.75 | \$2,349.75 | \$2,460.00 | \$2,234.62 |

We assume from your inquiry that you intend to claim as "business expense" certain expenditures from your personal funds for which you were not reimbursed. We wonder whether you are of the impression that you must report your living and quarters allowance as income. If so, you are advised that these allowances are non-taxable and need not be included in gross income on your tax return. You also state that such allowances "did not at certain periods and for certain posts suffice to cover expenses incurred in the performance of official duties". You are advised that these allowances are for the purpose of adjusting the difference between the cost of living at the foreign post and Washington, D. C. Your attention is called to the fact that such allowances are not designed to reimburse employees for expenses incurred in the performance of official duties. It might be possible, however, that you have incurred non-reimbursable "business" expense, but such fact would have no connection with living and quarters allowances or official expense.

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Generally, an employee may apply as a deduction, in arriving at his adjusted gross income, expenses incurred for travel, meals, and lodging while away from home and in the course of his employment. The word "home", as used, has been construed by the Supreme Court to mean the place of employment or official station and does not refer to the employee's place of abode or residence.

In answer to your second question, the tax withheld in the years 1943 and 1944 was based on your entire taxable salary earned, and should approximately cover your entire tax indebtedness for those years in absence of other income. However, in the year of 1945 no tax was withheld from your salary, and during the year of 1946 tax was only deducted from 1 July to the end of the year. Therefore, the tax deductions would not cover your indebtedness for those periods.

In answer to your third question, the reason that \$854.40 was withheld on \$5,728.26 salary in 1944 and only \$320.20 withheld on \$6,638.34 salary in 1946 was due to the fact that no tax was withheld during the first half of the year of 1946.

It is suggested that your returns be discussed with a representative of the Bureau of Internal Revenue before filing. However, care should be exercised in the interests of security. If you plan to return to Washington, D. C., in the near future, there are qualified persons within the organization who are available to assist in preparing your returns.

Very truly yours,

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